

The Mediation Role Of Banks' Performance For The Impact Of Internal Audit Quality And Financial Expertise On Financial Reporting Quality In Libyan Banking Industry

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Abstract	Article Info
<p>This paper investigates the dynamic relationships between Internal Audit Quality, Financial Expertise, Bank Performance, and Financial Reporting Quality within the Libyan banking sector. Employing quantitative research methods, the study analyzes data from a survey of 377 banking employees and managers, focusing on the direct and indirect influences of Internal Audit Quality and Financial Expertise on Financial Reporting Quality, with a particular interest in the mediating role of Bank Performance. The findings reveal that both Internal Audit Quality and Financial Expertise significantly impact Financial Reporting Quality through the mediation of Bank Performance. The research contributes to the understanding of how strengthening internal governance and enhancing financial knowledge within banks can lead to improved financial reporting. Recommendations are provided for banks to invest in their audit functions and financial education, and for regulators to enforce policies that promote these areas. The study suggests that such investments and policies can elevate the overall health of the banking sector, enhancing transparency and reliability in financial reporting, which is crucial for the stability and growth of the financial system. Future research is encouraged to further explore these relationships and their implications across different sectors and over time.</p>	<p>Keywords: Internal Audit Quality Financial Expertise Banks' Performance Financial Reporting Quality Libya</p>

Date of Submission: 24/03/2023
Date of Review: 10/04/2023
Date of Acceptance: 20/06/2023
IJMEET / Volume 1, Issue 3, 2023

INTRODUCTION

The financial sector, with banking at its heart, is central to the fiscal structure, and this is particularly evident in Libya where banks are the predominant financial entities. Research, both theoretical and empirical, underpins the belief that the banking sector is a key proponent of Libya's economic momentum, maintaining a symbiotic relationship that bolsters economic expansion (Masli et al., 2022); Elsharif, 2019). Banks play a critical role in the fluid movement of funds within the financial markets. The efficacy of a bank's operations is indicative of its contribution to the broader financial sector. The financial disclosures produced by banks act as pivotal channels for imparting financial knowledge to diverse stakeholders, a process that is integral to stakeholders' evaluation of the banking sector's fiscal standing (Jiang & Chen, 2019). The hallmark of high-caliber accounting information is its alignment with qualitative characteristics that fulfill the provision of useful data for stakeholders' accountability and decision-making (Dobija et al., 2022). Transparent banking management hinges on the caliber of its accounting information. When financial details are precise, they form the basis for informed decisions, fostering the sector's expansion and diversification of services.

Additionally, the provision of quality financial information supports robust accountability within banking institutions. This encompasses both horizontal accountability across various departments and vertical accountability through different levels of management, enabling informed employee contributions to financial decision-making (Pham et al., 2021). Financial information reaches a high-quality standard when it embodies attributes such as relevance, faithful representation, clarity, timeliness, comparability, and verifiability, crucial for effective stakeholder decision-making. Financial statements are described by Almaqoushi and Powell (2020) as the reports generated by an entity's management to report on the financial outcomes of the operational cycle, for both internal and external review. Drake et al. (2019) define financial statements as structured reports detailing the financial status and progress of an entity, which are indispensable for stakeholders engaged in the decision-making process. The quality of financial reports is enhanced by the authenticity and precision of the accounting information they present, ensuring their utility to end-users. To achieve such standards, reports must be devoid of distortions, accurately reflecting the entity's financial situation as per established norms (Jiang & Chen, 2019).

Effective financial reporting is paramount in fulfilling the communicative role of accounting, catering to user needs with accurate portrayals of economic events that significantly affect business operations, including insights into future management strategies and serving as a predictive tool for investor decisions (Kosmidou et al., 2020). Such reporting is a vital resource for investors and creditors formulating investment and lending decisions, with the quality and reliability of the information being key determinants of its utility. Comprehensive financial reports include a wide array of financial and non-financial information that stakeholders require to interpret financial statements fully, elucidating the applied accounting methodologies and their impacts. Therefore, financial reporting encompasses more than just financial data within financial statements; it includes other financial information like revenue and expenditure analysis and non-financial data such as accounting policies and audits, including the reports of external auditors and the board of directors (Fayez A. Elayan et al., 2018).

LITERATURE REVIEW

Internal Audit Quality

The quality of an internal audit is measured by its ability to conduct thorough, efficient, and superior evaluations of an organization's risk management, control mechanisms, and governance structures. This quality is defined by the internal audit's capacity to independently and objectively identify potential risks, enhance control measures, and deliver accurate and useful information to both management and stakeholders (Altamony, Benlemlih, & Girod, 2020; Krishnan, 2005). The significance of a high-caliber internal audit lies at the heart of an organization's governance and regulatory framework, playing an essential role in improving operational effectiveness, reducing risks, and adhering to both external regulations and internal guidelines. Quality internal audits offer unbiased confirmation that an organization's risk management and control systems are functioning effectively and efficiently. Research has linked superior internal audit quality with numerous beneficial outcomes. For example, research by Altamony et al., (2020) demonstrated a direct correlation between the quality of internal audits and the integrity of financial reporting, indicating that effective internal audits lead to more trustworthy and precise financial statements. Similarly, Krishnan (2005) noted that superior

internal audit functions have a positive impact on the efficacy of internal controls, enhancing an organization's ability to manage risks and detect fraud. Key elements that influence the quality of internal audits include the autonomy and impartiality of the audit process, ensuring that audits are conducted without bias or external pressure. Additionally, the professional competence and specialized knowledge of the internal audit team are vital, enabling them to thoroughly evaluate complex operations and scrutinize control systems.

Financial Expertise

Financial expertise is the specialized expertise, credentials, and competencies that individuals in financial reporting and analytical roles within an organization hold. This expertise includes a comprehensive grasp of accounting standards, financial regulations, the analysis of financial statements, and the capability to utilize intricate financial data to aid in decision-making and ensure precise financial disclosures (Andon, Free, & McInnes, 2017; Choi & Jeter, 1992). This expertise is essential for those tasked with financial reporting duties in organizations, combining in-depth technical understanding, practical experience, and proficiency in the norms of financial accounting and reporting. Those endowed with this expertise are adept at scrutinizing financial information, deciphering financial reports, and making educated decisions regarding accounting practices and financial announcements. The importance of financial expertise lies in its ability to guarantee the fidelity, dependability, and clarity of financial reports. Professionals equipped with financial expertise are adept at managing the intricacies of accounting standards and laws, which allows for the correct application of accounting principles and the fulfilment of disclosure obligations. Their expertise is crucial in identifying and addressing complex accounting issues, which results in more precise and significant financial statements. Furthermore, financial expertise is instrumental in facilitating sound decision-making within organizations. Experts in finance offer critical insights and analyses of financial data, empowering management to make well-informed strategic and operational choices. Their proficiency in interpreting financial information is key to assessing the organization's financial well-being and performance, pinpointing areas for enhancement, and evaluating the ramifications of diverse financial decisions. Research, such as the study conducted by Andon et al., (2017), underscores the beneficial impact of financial expertise on the quality of financial reporting, showing a positive correlation between the financial expertise of audit committee members and the quality of financial reports. This suggests that the presence of financially knowledgeable individuals within the audit committee significantly enhances the quality of financial disclosures.

Bank Performance

The performance of banks is indicative of their success in achieving set goals and their efficiency in using resources to benefit stakeholders (Bamel et al., 2022; Bananuka et al., 2022). Maqableh et al. (2023), observed that in recent times, banks in Libya have been navigating through considerable adversities such as political unrest, the depreciation of currency, and a downturn in oil proceeds, all of which have adversely impacted the country's economic health. The financial performance of banks in Libya has also been further compromised by the COVID-19 pandemic, leading to a reduction in economic activities and escalated risks. Libyan banks are currently grappling with issues like reduced profit margins, an increase in non-performing loans, diminished liquidity, and fragile risk management frameworks (Aeshah, 2022). A lack of efficient governance and regulatory supervision has further complicated the situation for the banking sector in Libya. To bolster their performance, banks in Libya should aim to enhance their risk management tactics, fortify governance and supervisory frameworks, improve liquidity, and introduce new products and services to attract and maintain customers. Moreover, investment in the development and training of bank staff is crucial for augmenting the expertise and capabilities of bank employees, which in turn, could lead to sustained improvements in bank performance.

The term "bank performance" refers to the capacity of banks to generate profits, navigate risks, and deliver financial services to their clientele (as defined by Nurunnabi, 2021). The financial health and operational success of banks are typically gauged through various metrics such as return on assets (ROA), return on equity (ROE), loan-to-deposit ratio (LDR), non-performing loans (NPLs), and net interest margin (NIM), as discussed by Madawaki et al., 2021). These metrics offer insights into a bank's financial stability, income-generating ability, risk management efficacy, and the trust it maintains with its customers. The performance of banks can

be influenced by numerous factors, including economic conditions, the regulatory landscape, market competition, and changes in customer preferences.

Financial Reporting Quality

Financial reporting quality encapsulates the precision, thoroughness, pertinence, and clarity of the financial data presented by a corporation in its financial documents, including balance sheets, profit and loss statements, and statements of cash flows (referenced by Soriya & Rastogi, 2023). It is vital for various stakeholders such as shareholders, lenders, regulatory bodies, and the wider community to have access to high-quality financial reporting in order to make well-informed judgments regarding a company's financial health, status, and prospects. The International Financial Reporting Standards (IFRS), formulated and upheld by the International Accounting Standards Board (IASB), serve as a universal framework for financial reporting, aiming to boost the reporting quality and transparency of financial information across companies globally (discussed by Nicolò et al., 2022). The integration of IFRS into a company's financial reporting practices can enhance the quality of financial reporting by introducing a uniform set of accounting principles and stipulations that foster both comparability and uniformity across financial reports (analyzed by Ngo & Nguyen, 2022). The IFRS mandates the disclosure of significant and pertinent data within financial statements, thereby increasing transparency and assisting stakeholders in making knowledgeable decisions.

Moreover, IFRS necessitates that companies elaborate on the risks, uncertainties impacting their financial results, and the presumptions and estimations applied in the preparation of financial statements (outlined by Mardessi, 2022). This additional information allows stakeholders to gain a deeper insight into a company's financial standing and future outlook. The adoption of IFRS also bolsters the trustworthiness of financial reporting by offering a set of accounting standards recognized and adopted globally, thereby gaining the trust of regulators, investors, and other interested parties (highlighted by Madawaki et al., 2022). This global acceptance can boost investor confidence, diminish information gaps, and attract investment towards companies committed to high standards of financial reporting quality (suggested by Klish et al., 2022). In essence, embracing IFRS can lead to an enhancement in financial reporting quality by advocating for transparency, uniformity, and comparability in financial reports, along with increasing the reliability of financial disclosures made by companies.

Ellili (2022) points out that the financial reporting quality of banks in Libya has suffered due to ineffective utilization of intellectual capital, subpar risk management, and a lack of sufficient transparency and disclosure. Issues such as the reliability and exhaustiveness of financial reporting by Libyan banks have been raised, attributed to antiquated accounting practices and inadequate internal controls (examined by Dobija et al., 2022; Duarte et al., 2022). Furthermore, the elevated levels of non-performing loans (NPLs) and the veracity of provisions for loan losses reported by Libyan banks have raised concerns, resulting in diminished trust in the financial reports issued by Libyan banking institutions among investors, creditors, and regulatory authorities. Financial reporting quality refers to the accuracy, completeness, and relevance of a company's financial information that is disclosed to stakeholders, such as investors, creditors, and regulatory agencies (Soriya & Rastogi, 2022). High-quality financial reporting promotes confidence in an organization's financial statements and helps ensure that stakeholders have accurate and reliable information for making informed decisions.

Theoretical Framework

The exploration of factors influencing Financial Reporting Quality has garnered significant attention, with much of the research focusing on Bank Performance metrics and audit quality. Numerous theories and frameworks suggest various elements that could enhance Financial Reporting Quality. This study draws upon five pivotal theories: human capital theory, value added intellectual capital, the knowledge-based view, the theory of resources and capacities, and the theory of information asymmetry. These theories were chosen for their emphasis on the value of information, as Financial Reporting Quality is inherently tied to the substance of the information presented. These theories collectively aim to improve the quality of information by elevating its value and reliability. The knowledge-based view and the theory of resources and capacities, in particular, posit that knowledge is a foundational asset for organizations, crucial for expanding market share and enriching organizational resources. In today's complex business environment, the demand for corporate transparency extends beyond the realm of high-quality financial reporting to include reports on governance, sustainability,

and other specialized areas (Fiano et al., 2022; Hatane et al., 2022). Regulatory reporting alone falls short of providing investors with all the necessary decision-making information, pushing them towards seeking private insights into corporate conduct. The presence of information asymmetry introduces uncertainty in the stock market and incurs costs related to adverse selection in transactions, as better-informed investors leverage this private information.

Past studies have demonstrated that corporate disclosure decisions, manifested through earnings quality, disclosure policies, or voluntary earnings announcements, play a role in influencing information asymmetries and market uncertainty, thereby affecting the capital costs for companies. Concerning information asymmetries, prior research agrees that corporate disclosure practices serve as a mechanism to enhance market efficiency and address asymmetry issues; a company's reporting strategy impacts this information risk by modifying the distribution of public and private information among investors (Esmaceli Givi et al., 2022). Consequently, economic information literature suggests that corporations disseminate information to bridge information gaps (Dharni & Jameel, 2022). This information can be disseminated through various means, including financial reporting and additional disclosures, as empirically evidenced by researchers like (Kaawaase et al., 2021a; Khan et al., 2021).

The significance of knowledge in shaping Financial Reporting Quality has not been extensively explored in literature (Dalwai et al., 2022). Intellectual capital, the embodiment of organizational knowledge, plays a crucial role in optimizing organizational outputs and, consequently, maximizing profitability. This link sheds light on the positive impact that superior Bank Performance can have on the generation of high-quality information. Songini et al. (2020) discovered that banks with superior performance exhibit higher Financial Reporting Quality. Internal Audit Quality is pivotal in enhancing a bank's Financial Reporting Quality (Ewert & Wagenhofer, 2019). A robust Internal Audit function significantly contributes to the precision and trustworthiness of financial statements by ensuring the correct application of accounting standards, meticulous recording and valuation of transactions, and comprehensive disclosure of essential information (Alzeban, 2020). This, in turn, instills greater confidence among stakeholders in the bank's financial reporting.

The role of Internal Audit Quality extends to augmenting the effectiveness of human, organizational, social, and customer capital. High-quality Internal Auditing underpins robust risk management and governance practices, thereby significantly uplifting Bank Performance and the quality of Financial Reporting (Agyei-Mensah, 2019). By pinpointing and addressing shortcomings in the management of human, organizational, and social capital, as well as customer relations, Internal Auditors are instrumental in optimizing these resources for the bank's advantage (Widarjo et al., 2020). Financial Expertise plays a critical and diverse role in influencing Financial Reporting Quality. A key aspect of this influence is the comprehensive understanding of accounting standards by individuals with significant Financial Expertise, such as CFOs and finance teams. Their deep familiarity with these standards enables precise application in financial report preparation (Kibiya et al., 2016).

RESEARCH MODEL AND HYPOTHESES

Internal Audit Quality and Financial Reporting Quality

The quality of internal auditing significantly influences the Financial Reporting Quality within organizations. Various research has delved into how Internal Audit Quality affects the precision, dependability, and clarity of financial disclosures, underscoring the vital function that internal audits play in maintaining superior financial data quality. Primarily, a robust internal audit framework aids in detecting and averting discrepancies and anomalies in financial statements. Through detailed evaluations and inspections, internal auditors examine the efficacy of internal control systems, pinpoint weaknesses, and suggest enhancements. The adoption of these recommendations allows organizations to boost the trustworthiness and precision of their Financial Reporting, diminishing the risk of inaccuracies and elevating the general standard of financial data (Ravenscroft et al., 2020; Sinclair & Whittington, 2016). Internal Audit Quality is instrumental in ensuring adherence to accounting norms and regulatory mandates. Internal auditors, armed with the requisite expertise and insight, guarantee alignment with established accounting conventions, reporting frameworks, and legal stipulations. Their active participation in the financial reporting mechanism aids organizations in fulfilling their reporting duties with precision and punctuality, thereby elevating the integrity and trustworthiness of financial statements (discussed by Ferri, 2016; Klein, 2002). Furthermore, a high-caliber internal audit framework bolsters the transparency

and dependability of financial disclosures. Internal auditors offer an impartial and objective evaluation of financial data, lending additional credibility to the financial statements. Their involvement in scrutinizing and validating financial figures, controls, and procedures ensures the comprehensiveness and accuracy of Financial Reporting, boosting stakeholder confidence in the organization's financial disclosures (Arena et al., 2019; Mock et al., 2016).

Moreover, Internal Audit Quality is a cornerstone for effective risk management, pivotal for maintaining Financial Reporting Quality. Internal auditors conduct risk assessments and surveillance within the organization, encompassing aspects pertinent to financial disclosures. By pinpointing and mitigating potential risks and control lapses, internal audit functions play a key role in safeguarding the integrity and dependability of Financial Reporting, minimizing the occurrence of significant misstatements (Lassoued & Jarboui, 2017). The pivotal role of Internal Audit Quality in augmenting Financial Reporting Quality is unmistakable. A high-quality internal audit framework is key to identifying and mitigating errors and anomalies, ensuring regulatory and standards compliance, improving transparency and reliability, and facilitating efficient risk management. Acknowledging the significance of Internal Audit Quality can lead to enhanced Financial Reporting practices, offering stakeholders more accurate and valuable financial insights. Based on these insights, this study formulated the following hypothesis:

H1: There is a significant relationship between internal audit quality and financial reporting quality.

Financial Expertise and Financial Reporting Quality

Financial expertise is essential for maintaining high standards of Financial Reporting Quality within organizations. Research has investigated how financial expertise correlates with the precision, dependability, and clarity of financial disclosures, emphasizing its profound influence on Financial Reporting Quality. Initially, financial expertise aids in the accurate interpretation and application of accounting norms and reporting guidelines. Individuals endowed with financial expertise have a comprehensive grasp of accounting rules, regulatory frameworks, and reporting obligations. This expertise equips them to navigate complex accounting standards and apply them correctly in financial disclosures. Professionals with financial acumen are adept at spotting and rectifying potential reporting inaccuracies, ambiguities, or misinterpretations, thereby producing financial statements that are both more reliable and accurate (Carmona & Trombetta, 2019; Hsu & Wu, 2019).

Financial expertise is also pivotal in the effective establishment of internal controls and the execution of financial reporting mechanisms. Those possessing financial expertise are knowledgeable about control structures, internal control systems, and procedures for financial reporting. Their proficiency ensures the implementation of suitable internal controls to protect the integrity of financial data. Professionals with financial acumen are capable of crafting and enforcing control measures to avert or identify inaccuracies, fraudulent activities, or misstatements in financial disclosures, thus elevating the overall reliability and quality of financial information (examined by Mock et al., 2016; Sinason & Whittington, 2016).

Moreover, financial expertise is instrumental in analyzing and deciphering complex financial information. Individuals with this expertise have the analytical prowess to scrutinize financial statements, evaluate the plausibility of financial outcomes, and pinpoint potential issues in financial reporting. Their expertise facilitates the detection of significant misstatements, anomalies, or inconsistencies that might compromise the reliability of financial disclosures. Financial professionals can undertake thorough financial analyses, execute analytical reviews, and offer insights to refine the precision and transparency of financial reporting (analyzed by Arena et al., 2019; Ferri, 2016). Furthermore, financial expertise is crucial for effective stakeholder communication. Those with financial expertise can articulate financial data in a coherent and impactful way. Their skill enables them to elucidate financial outcomes, clarify accounting strategies, and respond to stakeholder inquiries about financial disclosures. The enhanced communication driven by financial expertise bolsters stakeholders' comprehension of financial data, augments transparency, and fosters trust, ultimately contributing to the superior quality of financial reporting (explored by Lassoued & Jarboui, 2017; Ravenscroft et al., 2020). In light of the foregoing evidence, this study posited the following hypothesis:

H2: There is a significant relationship between financial expertise and financial reporting quality.

The mediation of Bank Performance

Numerous studies, including those by (Lee & Yu, 2021; Nawaz, 2019; Odunayo et al., 2022; Poh et al., 2018; Soewarno & Tjahjadi, 2020; Vitolla, Salvi, et al., 2020), have documented a positive correlation between Internal Audit Quality, Financial expertise, and intellectual capital with Financial Reporting Quality in the banking sector. The influence of Internal Audit Quality, Financial expertise, and intellectual capital on Financial Reporting Quality, with Bank Performance serving as a mediating factor, has garnered attention in various scholarly works. Researchers like Lee & Yu (2021), Nawaz (2019), Odunayo et al. (2022), Poh et al. (2018), Soewarno & Tjahjadi (2020), and Vitolla, Salvi, et al. (2020) have discovered a constructive association between intellectual capital and Financial Reporting Quality within banks. According to these studies, banks that possess a higher level of intellectual capital are likely to produce financial reports that are both more accurate and reliable, thereby boosting their standing and reducing the perceived risk among their stakeholders. Additionally, empirical research by Nawaz (2019) and Inyada (2018) has highlighted that Bank Performance, as reflected through various financial indicators like return on assets (ROA) and return on equity (ROE), acts as a mediator in the relationship between intellectual capital and Financial Reporting Quality. These investigations reveal that Bank Performance significantly enhances the effect of intellectual capital on Financial Reporting Quality. Considering the previous literature, this research hypothesized the following:

H3: Bank performance mediates the relationship between internal audit quality and financial reporting quality.

H4: Bank performance mediates the relationship between financial expertise and financial reporting quality.

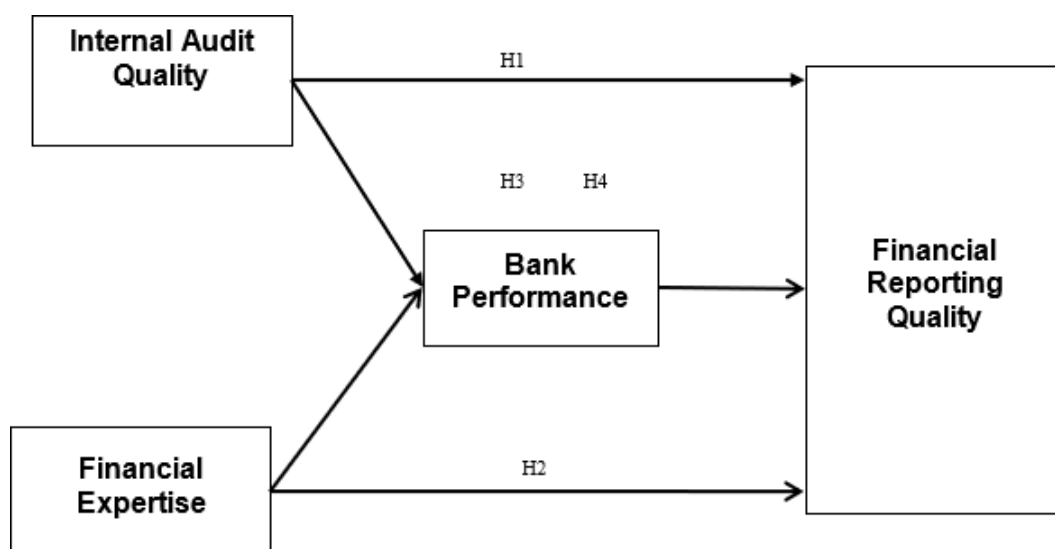


Fig. 1. Research conceptual model.

METHODOLOGY

Initially, this research focuses on analyzing the interconnections among financial expertise, Internal Audit Quality, Financial Reporting Quality, and Bank Performance. These variables are quantifiable and can be assessed using numerical values (Y. A. Wang & Rhemtulla, 2021). Quantitative methodologies are exceptionally useful in scenarios requiring the measurement and statistical examination of the relationships between different variables, offering precise data measurement and analysis capabilities. Moreover, employing a quantitative methodology in this research is advantageous as it facilitates the application of statistical tools for hypothesis testing and deriving conclusions about the broader population from a subset sample (Hair Jr et al., 2021). Gathering data from a representative cohort of Libyan banks allows for the application of statistical analyses, such as regression analysis, to scrutinize the connections among the study's variables and assess the mediating effect of Bank Performance on the relationship between financial expertise, Internal Audit Quality, and Financial Reporting Quality. Furthermore, the quantitative method is chosen for its capacity to extend the study's findings to a larger population of Libyan banks. Utilizing a sample that accurately represents the broader banking sector and adhering to stringent statistical methodologies enables the generation of results reflective of the entire Libyan banking population, not limited to the banks specifically examined. This approach enhances the relevance and utility of the study's outcomes for a wider audience, including policymakers and

industry professionals within the Libyan banking context. For data collection, this study adopted a quantitative approach, gathering primary data from a sample comprising 377 individuals employed in the Libyan banking sector, including both staff and management. The analysis of the collected data was conducted using statistical software, specifically SPSS version 21 and Smart PLS version 3.2.3.

DATA ANALYSIS AND RESULTS

Demographic Profile of Respondents

Out of the 377 questionnaires disseminated, 321 were retrieved, showcasing a significant engagement rate among the intended participants. Nonetheless, a subset of these questionnaires, specifically 14, was considered invalid for analysis due to reasons such as incomplete responses or incorrect completion, leaving 307 questionnaires valid and applicable for the research analysis. The demographic overview presented in Table 1 outlines the characteristics of the 307 respondents whose contributions were deemed valid for the study. The gender composition within the respondent pool reveals a predominance of male participants (182 or 59.5%) over female participants (125 or 40.5%), indicating a male-dominant sample. Regarding educational backgrounds, a large segment of the participants possesses a Bachelor's degree (133 or 43.5%), with those holding PhDs (91 or 29.4%) and Master's degrees (83 or 27.1%) following closely. This showcases a sample with a high educational caliber, where a notable fraction of the participants have achieved higher education degrees. The age distribution among the respondents showcases a varied demographic, with the most represented age bracket being those aged 36 to 45 years (101 or 33.1%), succeeded by individuals aged 46 and above (90 or 29.9%). The age group of 26-35 years comprises 22.6% (69 respondents), and the youngest cohort, aged 18-25 years, makes up 15.4% (47 respondents). This age distribution suggests that the bulk of the sample consists of individuals in their mid to late careers, likely possessing considerable professional experience and maturity. In terms of professional experience, a significant portion of the respondents, 42.6% (131 individuals), reported having over 5 years of experience in their field. Those with 3 to 5 years of experience accounted for 29.7% (91 respondents), and the groups with 1 to 3 years and less than 1 year of experience comprised smaller proportions, at 17.5% (54 respondents) and 10.2% (31 respondents) respectively. This indicates a respondent group with a wealth of professional experience, implying a substantial level of professional acumen and insight beneficial for the survey's reliability. In summary, the demographic data of the respondents depict a group characterized by a majority of male participants, a significant educational attainment level, and a wide range of ages and professional experiences. This diverse demographic foundation is conducive to analyzing the study's variables and deriving insights that could reflect a broad spectrum of viewpoints within the banking sector.

Table 1: Profile of Respondents

	n	%		n	%
Gender			Education Level		
Male	182	59.5	Bachelor	133	43.5
Female	125	40.5	Master	83	27.1
			PhD	91	29.4
			Age		
			18-25 years old	47	15.4
			26-35 years old	69	22.6
Working Experience			36-45 years old	101	33.1
Less than 1 year	31	10.2	46 years old and above	90	28.9
1 to 3 years	54	17.5			
3 to 5 years	91	29.7			
More than 5 years	131	42.6			

Analysis of Construct Reliability and Convergent Validity

Table 2 presents the results for Construct Reliability and Convergent Validity of the factors examined in the study. In the assessment of Internal Audit Quality, the loadings of the items range from 0.596 to 0.872, with Cronbach's Alpha at 0.791, Composite Reliability at 0.809, and Average Variance Extracted (AVE) at 0.594. Although most item loadings are well above the acceptable threshold of 0.5, two items are marginally below, which may suggest a need for further examination. However, the Cronbach's Alpha and Composite

Reliability values are above the commonly accepted thresholds of 0.7, indicating good internal consistency. The AVE is slightly below the preferred threshold of 0.6 but is very close, suggesting adequate convergent validity. For Financial Expertise, item loadings vary from 0.504 to 0.900, with one item noticeably below the preferred threshold. This factor has a Cronbach's Alpha of 0.804 and a Composite Reliability of 0.818, both indicating reliable internal consistency. The AVE is 0.603, which is above the threshold of 0.5 and denotes good convergent validity. Bank Performance is measured with items having loadings between 0.689 and 0.873. All items exceed the 0.5 cutoff, showing that each item is a good indicator of the construct. The Cronbach's Alpha and Composite Reliability are 0.827 and 0.903, respectively, which are excellent, suggesting a very reliable construct. The AVE for this construct is 0.761, well above the acceptable level, which provides strong evidence of convergent validity. Financial Reporting Quality's items show loadings from 0.645 to 0.925. The Cronbach's Alpha is 0.769, and the Composite Reliability is 0.882, both of which are above the 0.7 benchmark, indicating a reliable construct. The AVE of 0.635 exceeds the threshold, which confirms the presence of convergent validity. Overall, the constructs display a high degree of reliability and substantial convergent validity, with most values exceeding the recommended thresholds, although a few item loadings are marginally below the preferred levels. This suggests that the constructs are measured reliably and that the items are appropriate indicators of the latent variables in the study.

Table 2: Test for Construct Reliability and Convergent Validity

Factors	Items	Loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Internal Audit Quality	IAQ1	0.681	0.791	0.809	0.594
	IAQ2	0.613			
	IAQ3	0.822			
	IAQ4	0.725			
	IAQ5	0.872			
	IAQ6	0.741			
	IAQ7	0.649			
	IAQ8	0.822			
	IAQ9	0.634			
	IAQ10	0.596			
	FE1	0.768			
	FE2	0.812			
	FE3	0.786			
	FE4	0.504			
	FE5	0.841			
	FE6	0.635			
	FE7	0.857			
	FE8	0.844			
	FE9	0.709			

<i>FE10</i>	0.900
<i>BP1</i>	0.807
<i>BP2</i>	0.849
<i>BP3</i>	0.705
<i>BP4</i>	0.873
<i>BP5</i>	0.794
<i>BP6</i>	0.689
<i>BP7</i>	0.804
<i>BP8</i>	0.869
<i>BP9</i>	0.823
<i>BP10</i>	0.815
<i>FRQ1</i>	0.833
<i>FRQ2</i>	0.757
<i>FRQ3</i>	0.790
<i>FRQ4</i>	0.747
<i>FRQ5</i>	0.837
<i>FRQ6</i>	0.925
<i>FRQ7</i>	0.719
<i>FRQ8</i>	0.874
<i>FRQ9</i>	0.655
<i>FRQ10</i>	0.796
<i>FRQ11</i>	0.709
<i>FRQ12</i>	0.857
<i>FRQ13</i>	0.825
<i>FRQ14</i>	0.746
<i>FRQ15</i>	0.699
<i>FRQ16</i>	0.724
<i>FRQ17</i>	0.741
<i>FRQ18</i>	0.903
<i>FRQ19</i>	0.645
<i>FRQ20</i>	0.652
<i>FRQ21</i>	0.688

Discriminant Validity Analysis

The square root of the Average Variance Extracted (AVE) for each construct is shown along the diagonal (in bold), which should be larger than the inter-construct correlations for discriminant validity to be established. For Internal Audit Quality, the square root of the AVE is 0.868, which is greater than its correlations with Financial Expertise (0.325), Bank Performance (0.435), and Financial Reporting Quality (0.332). This indicates that Internal Audit Quality is sufficiently distinct from the other constructs. Financial Expertise has a square root of the AVE of 0.863, which exceeds its correlations with Internal Audit Quality (0.325), Bank Performance (0.636), and Financial Reporting Quality (0.256), confirming discriminant validity. Bank Performance's square root of the AVE is 0.889, which is also higher than its correlations with Internal Audit Quality (0.435), Financial Expertise (0.636), and Financial Reporting Quality (0.463), again supporting discriminant validity.

Lastly, Financial Reporting Quality has a square root of the AVE of 0.816, which is greater than its correlations with Internal Audit Quality (0.332), Financial Expertise (0.256), and Bank Performance (0.463), satisfying the criterion for discriminant validity. These results collectively indicate that discriminant validity is achieved for all constructs in the study, as the diagonal elements (square roots of the AVEs) are all greater than the off-diagonal elements (the correlations between constructs), ensuring that each construct is unique and captures phenomena not represented by the other constructs.

Table 3: Discriminant Validity Results

	IAQ	FE	BP	FRQ
Internal Audit Quality	0.868			
Financial Expertise	0.325	0.863		
Banks' Performance	0.435	0.636	0.889	
Financial Reporting Quality	0.332	0.256	0.463	0.816

Direct Effect Analysis (Path coefficients)

Table 4 outlines the results from a path analysis examining the direct effects of Bank Performance (BP), Internal Audit Quality (IAQ), and Financial Expertise (FE) on Financial Reporting Quality (FRQ). The effect of Bank Performance on Financial Reporting Quality is substantial with a beta coefficient of 0.409, indicating that as Bank Performance increases, there is a corresponding positive effect on Financial Reporting Quality. The standard deviation of this effect is relatively low at 0.083, and the T-value of 2.091 suggests that the effect is statistically significant, with a P-value of 0.003, which is below the conventional significance level of 0.05. Internal Audit Quality's impact on Financial Reporting Quality is represented by a beta of 0.190, signifying a positive but less strong relationship than Bank Performance. However, the T-value of 1.322 and a P-value of 0.080 indicate that this relationship is not statistically significant at the 0.05 level, implying that the evidence is insufficient to assert that Internal Audit Quality has a significant direct effect on Financial Reporting Quality. Financial Expertise shows a stronger positive beta coefficient of 0.498 on Financial Reporting Quality, suggesting that Financial Expertise has a substantial impact on improving Financial Reporting Quality. The standard deviation is 0.052, indicating precision in the estimate, and the T-value of 3.847 is well above the threshold for statistical significance. The corresponding P-value is 0.000, which is well below the 0.05 threshold, indicating a highly significant statistical relationship. In summary, both Bank Performance and Financial Expertise have statistically significant positive effects on Financial Reporting Quality, with Financial Expertise having the strongest impact. Internal Audit Quality, while showing a positive relationship, does not reach the level of statistical significance in this model, suggesting that its direct effect on Financial Reporting Quality might be more nuanced or possibly influenced by other variables not included in this direct effect model.

Table 4: Summary of the path analysis – the direct effect

	Beta	SD	T	P Values
BP -> FRQ	0.409	0.083	2.091	0.003
IAQ -> FRQ	0.190	0.067	1.322	0.080
FE -> FRQ	0.498	0.052	3.847	0.000

Key: IAQ; internal audit quality, FE; financial expertise, BP; banks' performance and FRQ; financial reporting quality

Mediation Effect Analysis

Table 5 provides the results of a mediation effect test to determine the indirect effects of Internal Audit Quality (IAQ) and Financial Expertise (FE) on Financial Reporting Quality (FRQ) through Bank Performance (BP). For the indirect pathway from Internal Audit Quality through Bank Performance to Financial Reporting Quality (IAQ -> BP -> FRQ), Path a (the effect of IAQ on BP) has a coefficient of 0.635, and Path b (the effect of BP on FRQ) has a coefficient of 0.387. The indirect effect (the product of Path a and Path b) is 0.724, with a standard error (SE) of 0.088. The t-value of 4.726 indicates that the indirect effect is statistically significant. The Bootstrapped Confidence Interval does not cross zero, with a lower limit (LL) of 0.654 and an upper limit (UL) of 1.351, which supports the presence of a mediation effect. Therefore, Bank Performance mediates the relationship between Internal Audit Quality and Financial Reporting Quality. Similarly, the pathway from Financial Expertise through Bank Performance to Financial Reporting Quality (FE -> BP -> FRQ) shows that Path a has a coefficient of 0.791, and Path b has a coefficient of 0.285. The indirect effect is 0.409 with an SE of 0.049. The t-value is quite high at 6.614, which strongly signifies the statistical significance of this mediation effect. The Bootstrapped Confidence Interval is entirely above zero, with LL at 1.563 and UL at 2.462, further confirming that the mediation effect is present and statistically significant.

The results indicate that both Internal Audit Quality and Financial Expertise significantly influence Financial Reporting Quality indirectly through their impact on Bank Performance. Bank Performance acts as a significant mediator in both relationships, and the strength of these mediation effects is confirmed by the bootstrapped confidence intervals not including zero and the high t-values, leading to a decision of mediation in both paths.

Table 5: Mediation Effect Test

	Path a	Path b	Indirect Effect	SE	t-value	Decision
IAQ ->BP-> FRQ	0.635	0.387	0.724	0.088	4.726	Mediation
FE ->BP-> FRQ	0.791	0.285	0.409	0.049	6.614	Mediation

DISCUSSION AND IMPLICATIONS

The mediation effect test results from Table 5 suggest that Bank Performance is a significant mediator in the relationships between Internal Audit Quality, Financial Expertise, and Financial Reporting Quality. These findings align with the propositions of Lee & Yu (2021), Nawaz (2019), and Odunayo et al. (2022), which emphasize the influence of internal audit functions and financial knowledge on the quality of financial reporting in the banking sector. The indirect effect of Internal Audit Quality on Financial Reporting Quality, as mediated by Bank Performance, is substantial and statistically significant, supporting the notion that Internal Audit Quality not only directly contributes to the accuracy and reliability of financial reporting as outlined by Poh et al. (2018) and Soewarno & Tjahjadi (2020), but also indirectly influences it through improving Bank Performance. Furthermore, the strong mediation effect of Bank Performance on the pathway from Financial Expertise to Financial Reporting Quality underlines the critical role that financial acumen plays in enhancing Bank Performance and, subsequently, the quality of financial reports. This is consistent with the findings of Vitolla, Salvi, et al. (2020), who assert that the depth of financial knowledge within a bank is a critical determinant of reporting accuracy, as it equips professionals with the necessary tools to navigate and apply complex accounting standards.

The substantial indirect effect size and the significant t-values highlight the pivotal role that Bank Performance plays as an intervening variable, echoing empirical findings by Nawaz (2019) and Inyada (2018), which point to the mediating role of Bank Performance in the intellectual capital and Financial Reporting Quality nexus. The bootstrapped confidence intervals further reinforce the mediation hypothesis, indicating a clear path

through which Internal Audit Quality and Financial Expertise exert influence on Financial Reporting Quality. This indicates a robust relationship where the operational performance of banks serves as a critical channel through which audit quality and financial expertise bear upon the reliability and accuracy of financial reports. The results demonstrate the intricate dynamics within the banking industry, where the interplay between audit functions, financial knowledge, and operational performance culminates in the quality of financial reporting. The research adds to the body of evidence that effective governance, signified by Internal Audit Quality and Financial Expertise, not only has a direct impact on reporting practices but also a profound indirect impact by enhancing the performance of banks. This provides valuable insights for banking regulators and financial institutions in Libya, suggesting that initiatives aimed at bolstering audit quality and financial knowledge could lead to improved Bank Performance and, consequently, better Financial Reporting Quality.

The elucidated results carry substantial implications for the banking sector, particularly in areas pertaining to governance and capability development. The pivotal role of Bank Performance as a mediator suggests that enhancing internal audit capabilities and financial expertise can lead to significant improvements in financial reporting practices. Banks may consider investing in advanced audit training programs and adopting more rigorous internal audit processes to elevate their performance, which, in turn, could improve the reliability and transparency of financial reporting. The strong influence of Financial Expertise on Bank Performance and Financial Reporting Quality indicates that financial knowledge is not merely a compliance requirement but a strategic asset that can drive superior performance. This implies that banks should prioritize continuous professional development and certifications for their finance personnel to stay abreast of the evolving accounting standards and financial regulations.

From a regulatory perspective, the findings highlight the need for robust frameworks that promote higher standards of Internal Audit Quality and Financial Expertise within banks. Regulators might leverage these insights to formulate policies that encourage or mandate ongoing education, professional development, and stricter audit requirements. Such measures could enhance the quality of financial reporting, thereby increasing investor confidence and contributing to the stability of the financial system.

The interconnections between these factors also suggest that stakeholders, including investors and regulators, should evaluate Bank Performance not only as a standalone metric but also as a reflection of the underlying audit and financial management practices. In doing so, stakeholders can gain deeper insights into the health of a financial institution beyond what is apparent from surface-level financial metrics.

For academia, the findings present a case for further research into how internal capabilities such as audit quality and financial acumen can be developed and leveraged to enhance organizational performance and reporting quality. Future studies could explore the specific mechanisms through which these capabilities translate into improved performance and reporting outcomes, providing a richer understanding of the causal relationships within the banking industry's operational context.

CONCLUSION

The investigation into the banking sector's practices has revealed critical insights into the interplay between Internal Audit Quality, Financial Expertise, and Bank Performance, and their collective impact on Financial Reporting Quality. The results unequivocally suggest that Bank Performance serves as a significant mediator between the quality of internal audits, the depth of financial expertise, and the quality of financial reporting. Such findings underscore the importance of strengthening internal governance mechanisms and the financial acumen of banking personnel to enhance Financial Reporting Quality. In light of these findings, it is recommended that banks intensify their focus on developing robust internal audit functions and invest in the financial education of their workforce. This could involve specialized training sessions, adopting best practices in internal auditing, and a commitment to continual learning to keep abreast of the latest financial reporting standards. For regulators, the study advocates for the implementation of stringent policies that enforce high standards of audit quality and financial expertise within banks, which could include mandatory certifications and regular assessments. Furthermore, the banking industry is encouraged to recognize the strategic value of financial knowledge and internal audit capabilities, not just as compliance measures, but as fundamental components that can drive organizational excellence and trustworthiness in financial reporting. The adoption of such proactive measures can contribute to a more transparent, accountable, and stable banking environment, which is vital for the economic development and investor confidence within the financial sector.

For future research, a pathway has been paved to delve deeper into identifying and understanding the specific processes and practices that can further enhance the positive impact of Internal Audit Quality and Financial Expertise on Bank Performance and Financial Reporting Quality. It would be beneficial for subsequent studies to consider cross-sectoral analyses or longitudinal data to explore the potential evolution of these relationships over time. This paper's insights and recommendations aim to contribute to the ongoing dialogue on improving financial reporting practices, ultimately fostering a more robust and reliable banking system.

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